

Report considered by Cabinet – 12 October 2015

## REVISED REPORT

### INVESTMENT IN PROPERTY FUND FOR TEMPORARY ACCOMMODATION

Responsible Cabinet Member: Councillor O'Neill (Cabinet Member for Housing and Regeneration)

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#### Executive Summary:

Discharging its duty to provide temporary accommodation to households that it accepts as statutory homeless and that have no immediate settled housing costs the Council £979k last year, and due to an increase in demand is forecast to cost an estimated £1.6m in 2015/16.

B&B is unsuitable housing for family households. The Council is working on a variety of options to obtain more self-contained temporary accommodation for rent to reduce or eliminate the use of B&B.

The option recommended here is for the Council to invest £5m in the Real Lettings Property Fund (match-funded by £5m from Big Society Capital) to purchase a portfolio of up to 70 flats in the open market in Milton Keynes.

The scheme will result in net savings of up to £3.3m in B&B costs and the investment will provide a financial return to the council which will largely off-set the cost of borrowing.

This will require approval by the Council, with the scheme funded by Prudential Borrowing.

#### 1 Recommendation(s)

1.1 That the Council be recommended to:

- 1.1.1 approve prudential borrowing of £5m to fund a £5m investment in the Real Lettings Property Fund,
- 1.1.2 approve an addition to the 2015/16 Capital Programme Resource Allocation and Spend Approval of £5m
- 1.1.3 amend the Treasury Management Strategy by inclusion of joint property investments within the class of permitted investments.

- 1.2 That, subject to the Council approving the additional expenditure, the Corporate Director - Place be authorised, in consultation with the Corporate Director Resources, to agree the detailed terms of investment and complete the agreement with Resonance UK (the Real Lettings Property Fund Manager).

## **2 Issues**

- 2.1 Milton Keynes Council has a duty to secure housing for households that it accepts as statutory homeless (within the meaning of Part VII of the 1996 Housing Act) or to provide interim temporary accommodation. This is increasingly out of area B&B as there is a shortage in Milton Keynes of alternative accommodation. While demand continues to increase, the supply of properties available for temporary or permanent rent is reducing.
- 2.2 B&B accommodation cost the Council's General Fund £979k in 2014/15 - in 2015/16 the cost is forecast to be £1.6m and there were 137 households in B&B at 9 August 2015. B&B also provides an unsuitable environment for families to live in - short-stay rooms generally located out of the Borough away from work, schools, and friends and family, and without the facilities such as cooking and washing that self-contained accommodation offers. The Council is working on a variety of short, medium and long-term options to reduce or eliminate its use.

### **2.3 Real Lettings Fund**

- 2.3.1 The Council's investment (and the match-funding) in the Real Lettings fund will provide up to 70 self-contained flats to address the urgent need for suitable temporary accommodation. The Council will invest £5m in the Real Lettings Property Fund managed by Resonance UK - a Social Investment Company - to purchase up to 70 properties in the open market in Milton Keynes over 18 months.
- 2.3.2 St Mungo's Broadway - a Registered Charity and, as St Mungo Community Housing Association, a Registered Provider with the HCA - will manage the properties which will be let to homeless households nominated by Milton Keynes Council at LHA rates. The placement fee of £3000 paid by the Council for each new nomination will go toward a comprehensive support package provided by St Mungo's to help each family to set up and manage its tenancy, and to move on to permanent housing.
- 2.3.3 As rent will be charged at LHA level, those households eligible for full Housing Benefit should have the full rent paid through benefit and the Council should have no additional 'top-up' costs for any shortfall in rent. St Mungo's Broadway will be responsible for the maintenance of the properties and collection of the rent.
- 2.3.4 The fund offers a far better temporary housing solution for families in need as well as reducing the need for B&B. The ability to provide additional temporary accommodation for homeless families within Milton Keynes will also reduce the costs of Home to School Transport, estimated at £240k for the current year..
- 2.3.5 The Council's investment will initially fund the acquisition of up to 70 properties over 18 months. It is then tied in for 5 years. The Council then has an option to

extend its investment for 2 years, withdraw or buy out the match funder. The Real Lettings Fund is open to other local authorities outside of London and the rate of return will be linked to the overall performance of the fund. The Council's equity will also be a proportion of the overall fund, not the assets which are in Milton Keynes (as explained in the Annex).

## 2.4 **Medium Term Position**

- 2.4.1 The Real Lettings proposal is for an investment by the Council of £5m (which will be match-funded) for the purchase of up to 70 flats for temporary accommodation. Purchase will be over a period of 18 months - time to evaluate the scheme's success as the number of units increase. If it works as intended, there may be an option to extend the investment to meet further demand.
  - 2.4.2 However there are risks due to the time limited nature, the refinancing risk at the end of five years, and of changes to investors at the end of five years and the value of properties at this point.
  - 2.4.3 Homelessness is likely to be an issue for the longer term for the Council. The council will need to adopt a range of approaches to manage and mitigate the pressure, of which this proposal is one.
  - 2.4.4 A further option is to use the experience gained from this fund to create a local pool of temporary accommodation, purchased directly by the Council, but managed by an external provider to ensure successful outcomes are achieved, with a limited risk to the Council. This will be fully considered based on the experience gained from this investment fund model.
- 2.5 No external consultation is required or has been carried out.

## 3 **Options**

- 3.1 **Do Nothing** - as there is insufficient alternative temporary accommodation available locally, the Council would continue to place homeless households in expensive and largely out of area B&B with an increasing cost to the General Fund. Homeless families would be placed in an unsatisfactory and disruptive environment. It would also miss a low-risk investment opportunity to reduce B&B costs.
- 3.2 **Purchase Properties for Temporary Accommodation on the Open Market** - the Council would need to invest at least £10m for the purchase of up to 70 properties. This would need political support, would take time to implement any purchase programme through procurement and approval requirements, and the Council would take the risk for its investment.
- 3.3 **Invest in Real Lettings Property** - the investment will provide speedy delivery of up to 70 properties over 18 months to address the urgent need for temporary accommodation for homeless households, and reduce reliance on expensive B&B. It will also provide a low-risk investment for the Council. This is the recommended Option.

## 4 **Implications**

- 4.1 Policy

It will contribute towards the Housing Strategy 2012 objective - Reduction of the number of Households in Bed and Breakfast. Housing performance measures it will help to achieve are: B&B cost reduction

#### 4.2 Resources and Risk

Failure to act would result in continuing spending on B&B accommodation, which is not currently budgeted for in the Council's Budget 2015-16 or the Medium Term Plan, and on Home to School Transport.

Investment through the fund and with management through St Mungo's Broadway secures match-funding, minimises and shares risks, and provides opportunities to learn from the Council's and partners' experiences of this approach to investment in additional temporary accommodation.

Financing this proposal through Prudential Borrowing is a proper purpose within the CIPFA Treasury Management Code. This has been confirmed by the council's treasury management advisers.

The Treasury Management Strategy does not currently provide for investment in vehicles such as Real Lettings, and Council should be asked to amend the strategy to do so.

Annex A to the report, which is not for publication by virtue of Paragraph 3 (Information Relating to the Financial or Business Affairs of the Authority) of Part 1 of Schedule 12A of the Local Government Act 1972, sets out additional financial and governance issues involved in the proposed investment. These matters are considered to be restricted as they contain commercially confidential information and references to the Council's negotiating position.

Annex B sets out additional information about the issues involved in the proposed investment

The Resource Allocation and Spend Approval amendment of £5m will be added to the capital programme for 2015/16. This project will be funded by prudential borrowing

Y	Capital	Y	Revenue	N	Accommodation
N	IT	Y	Medium Term Plan	N	Asset Management

#### 4.3 Carbon and Energy Management

All properties will be at Decent Homes Standard or above.

#### 4.4 Legal

4.4.1 The Council has a legal duty to secure housing for homeless families (Housing Act 1996).

4.4.2 The Right to Buy would not be triggered, as the Council would not own the properties.

4.4.3 The Local Government Act 2003 empowers the Council to borrow money for any purpose relevant to its functions, or for the purposes of the prudent management of its financial affairs.

4.5 Other Implications

Y	Equalities/Diversity	N	Sustainability	N	Human Rights
N	E-Government	N	Stakeholders	N	Crime and Disorder

Annex A- Real Lettings Property Fund – Investment in Temporary Accommodation (Not for publication by virtue of Paragraph 3 (Information Relating to the Financial or Business Affairs of the Authority) of Part 1 of Schedule 12A of the Local Government Act 1972)

Annex B - Real Lettings Property Fund – Investment in Temporary Accommodation